UPDATE 2-BOJ offers $10.2 bln subordinated loans to banks

By

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* BOJ offers 1 trln yen in subordinated loans to banks

* BOJ says aiming to ensure stability in financial system

* Shirakawa says banks should raise capital in markets too

By Hideyuki Sano and Tetsushi Kajimoto

TOKYO, March 17 (Reuters) - The Bank of Japan will offer up to $10.2 billion in subordinated loans to Japanese banks to bolster their depleted capital, it said on Tuesday, in the latest move to try to prevent lending drying up to companies.

Countries around the globe are striving to shore up banks’ capital and limit the impact of toxic assets, to combat the global financial crisis that has engulfed their economies.

The capital of Japanese banks, which hold large amounts of shares, has been hard hit by a stock market slide that recently took the Nikkei share average .N225 close to 26-year lows.

But analysts were cool in their response to the BOJ plan, saying the loans would not help the central bank achieve its goal of increased lending to ease a credit crunch as the loans would not
“You’ve got to wonder the reason why the BOJ came up (with) this proposal. Supplementary capital issuance is clearly not the answer.”

The BOJ, taking a further step in its experiment with unconventional policy steps, said it would offer banks up to 1 trillion yen ($10.2 billion) in funds to shore up their capital, in the interests of stability in the financial system.

BOJ Governor Masaaki Shirakawa said the new scheme was aimed at banks facing big risks from falling stock prices, including the country’s biggest banks, but added he still preferred them to source funds on financial markets.

“Our basic thinking remains firm that banks should first try to procure funds from the markets,” he told a media conference.

“As such, we should not obstruct such efforts and consider ways to give incentives to the banks to repay the borrowed funds as soon as possible.”

LITTLE ROOM LEFT

The announcement was made after a BOJ regular board meeting, which the BOJ held on the sidelines of a two-day monetary review that will run until Wednesday.

At its monetary policy meeting the BOJ is also expected to discuss an increase in its buying of government debt as it has scant room to cut rates, already near zero. [ID:nT254061]

The government, worried that cuts to lending could further damage an economy mired in its worst recession in decades, is keen for banks to lift their capital ratios.
Analysts say it is Tier-1 capital that some smaller banks need to reinforce their balance sheets.

“IT’s certainly going to help the banks looking to issue subordinated debt, and that’s going to boost their Tier-2 capital,” said Ismael Pili, a bank analyst at Macquarie Capital Securities.

“The thing about Tier-2 capital is, of course, a lot of people seem to be fixated more on the Tier-1 issuance, especially the core capital.”

The BOJ unveiled a scheme last month to buy up to 1 trillion yen ($10.2 billion) in shares held by banks, dusting off a scheme it ran from 2002 to 2004 amid a domestic banking crisis. [ID:nT114588]

But so far banks have been reluctant to use the scheme as they do not want to sell their stakes at a loss.

Japan’s regulatory Financial Services Agency said last week it would inject 121 billion yen into three regional lenders -- Sapporo Hokuyo Holdings Inc 8328.T, Minami-Nippon Bank 8554.FU and Fukuho Bank Ltd. [ID:nT146712] ($1=98.22 Yen) (Additional reporting by David Dolan; Editing by Rodney Joyce and Patrick Graham)
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